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SUBJECT: SOUTH AFRICA/MOZAMBIQUE TRADE ON THE RISE

¶1. (U) Summary: Economic ties between South Africa and Mozambique continue to strengthen. Trade between the countries has grown 65 percent since 2004 and the trade relationship is heavily in South Africa's favor. South Africa has been the largest foreign investor in Mozambique for more than a decade, and its investments in infrastructure and energy mega projects have greatly contributed to increased trade between the two countries. End Summary.

Booming But Lopsided Trade Relationship

¶2. (SBU) As of 2007, Mozambique is South Africa's 24th largest trading partner, representing 1.1 percent of all South African trade and its fifth largest trading partner in Africa, behind Nigeria, Angola, Zimbabwe, and Zambia. Mozambique is South Africa's 31st largest source of imports (4th in Africa) and the 15th largest destination for its exports (2nd in Africa). According to the SAG's Department of Trade and Industry (DTI), trade with Mozambique has grown 65 percent since 2004, with total trade in 2007 reaching 11.2 billion rand (USD 1.5 billion). DTI's Africa Desk Officer Deenan Prouty attributed the close and growing trade relationship to several factors, chief of which is "high-level political engagement," including heads of state and ministers, focused on economic development. SA Institute of Foreign Affairs official Neuma Grobbelaar told econoff that Mozambique is South Africa's strongest political ally and therefore the close and growing trade relationship is only natural.

¶3. (U) The consistent growth in trade between the neighboring countries is demonstrated in the table below (figures in million Rand):

SA/Mozambique Trade				
	2004	2005	2006	2007
SA Exports	5,077	6,402	6,204	8,905
SA Imports	280	199	318	2,351
Trade Balance	4,797	6,203	5,992	6,554

The nearly 90 percent growth in imports between 2006 and 2007 is skewed by the inclusion, for the first time in 2007, of electricity and natural gas imports in the SAG's trade statistics. Although South Africa has been importing electricity from Mozambique since 1988 and natural gas since 2004, these imports were not recorded until 2007 and now represent nearly 70 percent of all South African imports from Mozambique. Excluding electricity and gas, South Africa mostly imported textiles, animal products, and vegetable products. Excluding electricity and gas, South African imports from Mozambique have still increased by 25 percent, signaling continued strong growth in trade well exceeding Mozambique and South Africa's individual GDP growth of 7 percent and 5 percent, respectively.

¶4. (U) South Africa has consistently been Mozambique's largest trading partner: some 40 percent of Mozambique's imports come from South Africa and approximately 26 percent of Mozambique's exports are destined for South Africa. Like many lesser developed countries seeking to industrialize, Mozambique mostly imports mineral products, machinery, electrical equipment, and base metals.

Robust But One-Sided Investment Relationship

¶5. (SBU) Mozambique's stable political environment, sustained high rates of economic growth and significant returns on the first of its infrastructure and energy mega projects have spurred investor confidence in recent years, and South African companies have led the charge. According to Grobbelaar, Mozambique was the second largest recipient of South African investment in Africa by 2004. SAG estimates show that South Africa has invested approximately USD 4 billion in Mozambique, accounting for nearly 50 percent of all foreign direct investment in the country through 2006, confirming its position as the single largest foreign investor in the country. According to Prouty, more than 400 South African companies have invested in Mozambique, in a diverse basket of industries, including infrastructure, construction, tourism, and retail. Examples of significant South African investment in mega projects in Mozambique include:

- BHP Billiton invested USD 2.1 billion in the Mozal aluminum smelter in Maputo Province. The smelter has made Mozambique one of the world's leading exporters of aluminum and is considered the primary catalyst for foreign direct investment in Mozambique. Mozambique uses the South African power transmission system to feed power to the smelter.

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- South African state-owned SASOL Petrochemicals Group invested USD 1.2 billion to develop the Pende and Temane gas fields in Inhambane Province. SASOL pipes some 120-million gigajoules of natural gas per year (524 million cubic feet per day) to South Africa.

- South Africa's privately owned Tongaat-Hulett Group is investing USD 177 million to expand production of its four sugar companies in southern and central Mozambique, bringing its total investment to USD 477 million.

- BHP Billiton and the South African Industrial Development Corporation are expected to invest an estimated USD 300 million in the Corridor Sands titanium project in Chibuto, Gaza Province to extract 250,000 tons of titanium slag per year.

¶6. (SBU) Mozambican investment in South Africa, on the other hand, is negligible, but not because of any barriers imposed by the SAG. Prouty said that Mozambican companies do not have the capacity to compete in South Africa. Mozambican High Commission in South Africa Economic Attache Godinho Alves confirmed that while he sees opportunities for Mozambican companies in the areas of public works or services, there is a general lack of financing for these companies to compete in South Africa. The Mozambican Government is appreciative of South African investment and believes it has few options to address the considerable trade imbalance.

¶7. (U) "South African" mega projects have played a significant role in increasing Mozambique's overall trade with the rest of the world, accounting for about 72 percent of exports and 17 percent of imports. In particular, the development of Mozambique's natural gas deposits has led to a dramatic increase in extractive-industry exports, which has boosted the balance of payments and created the foreign exchange needed to support Mozambique's overall development. The mega projects have also encouraged further investment in Mozambique. The GRM confirmed that South African foreign direct investment inflows increased significantly from 2006 to 2007.

(U) Private investment by South African companies in tourism activities in Mozambique is also on the rise, particularly since the two countries eliminated visa requirements in 2006. South African-owned guest lodges, restaurants, and tourism operators are now firmly established in several regions of Mozambique, offering numerous options to the burgeoning number of South African tourists visiting the beaches in southern Mozambique. The Mozambican Ministry of Tourism estimated that nearly one million tourists visited Mozambique in 2007, of which South Africans represented the great majority. South African Airways operates two daily flights between Johannesburg and Maputo. Mozambican Airlines operates two daily flights, and has increased the number to four on Wednesdays and Fridays to meet the growing demand.

SA Watching Mozambique Energy Expansion

¶8. (U) Recent developments in Mozambique could pave the way for an even closer energy relationship between the two countries in the midst of the worst power crisis in South African history, and the increasing regional demand for electricity (estimated at 1,000 MW per year) and alternative energy sources, such as natural gas and biofuels. South African state power company ESKOM currently imports approximately 1,400 MW of the 2,000 MW generated by Mozambique's Cahora Bassa Hydroelectric Plant under a low-cost, long-term contract. Some 950 MW is then "re-exported" to Mozambique to provide electricity to the Mozal Smelter.

¶9. (U) In mid-2007 the GRM announced several ambitious investments in the country's energy sector to increase generation capacity, including a 750 MW gas-fired power station in Inhambane province; a 2,000 MW coal-fired power station in Tete Province; the new 1,200 MW Mpenda Nkua hydroelectric plant in Tete Province; and an expansion of the Cahora Bassa dam, expected to increase capacity from 2,000 MW to an estimated 14,000 MW should all phases of the expansion be implemented. None of these projects currently involve South African investment, but the ongoing energy shortages in South Africa suggest the SAG will have an interest in increasing its electricity imports from Mozambique.

¶10. (U) South Africa's SASOL is investing USD 160 million to expand its natural gas facilities in Mozambique and construct a gas compression station, aimed at providing natural gas for a new gas-to-liquids plant in South Africa. All of the above projects are expected to increase the supply of gas from Mozambique to South Africa by an estimated 20 percent (from 120 to 147 gigajoules per year) by 2009 and will ultimately satisfy a quarter of the fuel needs of South Africa's Gauteng and Mpumalanga provinces.

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Maputo Corridor an Impetus for Trade

¶11. (SBU) South Africa has invested significantly in transport infrastructure projects along the Maputo Corridor, which links Mozambique's deep water ports of Maputo and Matola to South Africa's industrial Gauteng Province. Maputo Corridor Logistics Initiative CEO Brenda Horne told econoff that since 1998 key investment projects include the N4 toll road from Pretoria to Maputo, the upgrading of the railway line from the Lebombo/Ressano Garcia border post to Maputo, the upgrading of the Maputo Port, and the dredging of the Maputo harbor. Another major development is the current construction of a "one-stop border post" set to begin operation in ¶2010. The streamlined border post will cut customs clearance times by an estimated 50 percent. Such improvements have already been a major catalyst for increased trade between the two countries.

¶12. (U) The Maputo port is closer to Johannesburg/Pretoria by road and rail than the ports of Durban and Richards Bay in Kwazulu Natal Province, and recent investments by South African shipping and

logistics company Grinrod demonstrate confidence in the Maputo Port's potential as an alternative to the regional corridor from Gauteng to Durban. Grinrod, which owns a 12 percent share in the consortium that runs the Maputo port and a 95 percent share of the Maputo coal terminal, has invested USD 40 million into the Maputo harbor and has plans to invest a further USD 80 million through ¶2010. The investment includes construction for a car storage terminal with an annual capacity of 250,000 cars. Such an expansion appears to be attracting the attention of international car companies with factories in South Africa. BMW SA, Toyota, and Nissan have all indicated interest in using the Maputo port as an alternative to the congested car terminal at Durban.

COMMENT

¶13. (SBU) South African investment in Mozambique has and will continue to spur Mozambican economic growth and assist in developing local industry and supply chains. Increased energy and transportation trade and investment will also contribute positively to regional integration mechanisms such as the Southern African Development Community and the Southern African Power Pool.

¶14. (U) This cable was prepared jointly by Embassy Pretoria and Embassy Maputo.